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Commonwealth of Massachusetts
HOUSE OF REPRESENTATIVES

HPAO

HOUSE POST AUDIT AND OVERSIGHT BUREAU

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Charles River Hospital-West

Preliminary Report

Dated October 15, 1993

GOVERNMENT DOCUMENTS COLLECTION
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Introduction

The decision by the Department of Mental Health ("DMH") in 1991 to transfer patients from Northampton State Hospital ("NSH") to Charles River Hospital-West, a privately run facility in Chicopee, Massachusetts, was fundamentally flawed, according to a preliminary review by the House Post Audit and Oversight Committee Bureau (the "Bureau").

NSH was one of three state mental health hospitals recommended in June 1991 for closure by a special gubernatorial commission appointed to initiate the administration's massive privatization plans for human services. The special commission's report projected that closure of NSH, which had a patient census of 120, and the transfer of those patients to largely privately run facilities, would save the Commonwealth $10.33 million a year (See Exhibit #1).

However, after reviewing subpoenaed financial documents and hundreds of pages of memoranda and correspondence between the DMH and hospital administrators, the Bureau concludes that the Charles River Hospital-West arrangement has proved to be a net loss to taxpayers and poses substantial risks of significant future costs.

The Bureau also found that at the time Charles River Hospital-West first began admitting state patients in April 1992, its staff was inadequately trained to care for them and

its facilities were deficient in several key respects. There is evidence that both the level of care at the hospital and its facilities have been substantially improved in the past year and a half. However, conditions at Charles River Hospital-West, at least initially failed to adhere to the gubernatorial commission's central tenet that care in private facilities be equal to or better than the care given in the public facility slated for closure. And the Bureau is concerned that as a result of the closure of NSH, the DMH has virtually no backup facilities available should the quality of care deteriorate at Charles River Hospital-West or the facility's contract be terminated.

Compounding this concern is the finding by the Bureau that the DMH knew before approving the $10.7 million contract arrangement involving Charles River Hospital-West that Community Care Systems Inc. ("CCSI"), the hospital's parent company, was in questionable financial condition. An audit done in February 1992 by Coopers & Lybrand noted a $13.8 million stockholder deficit on CCSI's part in 1991 and expressed "substantial doubt about the company's ability to continue as a going concern." The audit also indicated that CCSI had entered into negotiations for protection from creditors and had incurred millions of dollars in losses from several unprofitable hospital ventures in other states and another country dating back to the mid 1980s.

It is clear that the DMH knew of the significant financial problems experienced by CCSI before approving the transfer of state patients to Charles River Hospital-West in the spring of

1992. Given the DMH's knowledge of this situation, the Bureau can only conclude that it was irresponsible of the DMH to entrust the lives and well-being of the former NSH patients to such a risky venture. The arrangement raises further questions over whether the DMH was attempting, in approving the Charles River Hospital-West patient transfers, to bail out a financially faltering company.

Among other findings by the Bureau in this preliminary review:

1. Although the "wrap-around" license for the Charles River Hospital-West unit, which was held by Holyoke Hospital and subsequently Providence hospital, required a "clear link" between the hospitals and the Charles River unit, the hospitals appear to have had minimal managerial and clinical control over the unit. The wrap-around license arrangement made the Charles River Hospital-West unit eligible for Medicaid reimbursement for the unit's costs.

   Further, both Charles River Hospital-West and top DMH officials appear to have resisted efforts by Holyoke Hospital to gain some managerial and clinical control over the unit.

2. As late as a year after the first state patients were transferred to the Charles River Hospital-West unit in April 1992, administrators were still unable to keep financial records in proper order and were overstating expenses eligible for state reimbursement.

3. Charles River Hospital West's daily per-patient cost of $683 is significantly higher than the $350 cost at NSH, and although Charles River is eligible for 50 percent federal Medicaid reimbursement, the Bureau would question whether taxpayers are noticing any savings in the private arrangement. The Bureau would also note that it is not clear whether the federal government will continue to subsidize this type of cost-shifting arrangement over the long run.

4. More than $100,000 in safety-related repairs and improvements was needed at Charles River Hospital-West, with most of the work done only after the former NSH patients were admitted there. Despite the agreed-upon need for the improvements, Charles River Hospital-West officials resisted making several of them, documentation shows.

5. Both officials within the DMH and at Holyoke Hospital

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continually expressed concerns about a range of problems at Charles River Hospital-West since it first accepted NSH patients, including concerns about patient escapes and inflated administrative costs. Yet, the Bureau found little evidence that those concerns were addressed by top officials at DMH or the Executive Office of Health and Human Services. As with many other instances in which the administration has privatized state services, top administration officials appear to have been more concerned in projecting an image of success for Charles River than addressing serious problems that have arisen with the arrangement.

Background

DMH plans to close NSH and privatize its services date back to 1985, when the state entered into negotiations with Holyoke Hospital to establish an in-patient psychiatric unit at the hospital. Several months before that, in August 1984, CCSI submitted an application to the state to build a 78-bed psychiatric hospital in Chicopee, according to records. The CCSI "determination of need" application stated that there was a deficiency of 120 acute inpatient psychiatric beds in the Holyoke-Chicopee region, adding that the area was "the second most severely underbedded region in the state."

Nevertheless, after Charles River Hospital-West was opened in May 1991 as a 90-bed psychiatric hospital, it proved to be chronically overbedded. The percentage of occupancy hovered around 50 percent in the 1992 and 1993 fiscal years, according to the Rate Setting Commission. According to other sources, the occupancy rate was significantly lower than 50 percent. A March 1992 Holyoke Hospital memo put the total census at Charles River Hospital-West at 30, prior to the arrival of the state patients.

In a June 3, 1991 memo to the former director of the DMH Western Massachusetts Area office, the then president and chief executive officer of Charles River Hospital-West offered to accept a total of roughly 63 patients from NSH starting on July 1, 1991. The memo stated that Charles River Hospital-West "recognizes that the transfer of the 60 patients would greatly assist in the closing of Northampton State Hospital." The memo also noted that the DMH Western Massachusetts Office director had recommended a few days before -- on May 29, 1991 -- that Charles River Hospital-West explore a partnership with Holyoke Hospital to care for the state patients.

Less than a month later, on June 19, 1991, the Governor's Special Commission on Consolidation of Health and Human Services Institutions (the "Special Commission") recommended that NSH be closed along with eight other state institutions for the mentally and chronically ill and retarded. The Special Commission's recommendation was that NSH be closed in fiscal year 1992.

In October 1991, Holyoke Hospital signed a contract with DMH to build a 24-bed unit for former NSH patients, with the Holyoke unit anticipated to open in 1993. DMH began transferring patients out of NSH in April 1992. Two months before that, DMH amended the contract with Holyoke Hospital to allow it to enter into a 17-month arrangement with Charles River Hospital-West while the Holyoke unit was under construction. The temporary arrangement stated that Charles River would provide an initial 45 beds for the former NSH patients with that number reduced to 30 in June

1993.

A key problem with the Charles River arrangement was that the hospital, like NSH, is a mental health facility and therefore was normally not Medicaid eligible. As a result, the DMH obtained permission from the federal Health Care Financing Administration to allow Holyoke Hospital, a Medicaid eligible acute care hospital, to "wrap" its license around the 45 Charles River beds which were being used by the former NSH patients.

Holyoke Hospital, however, announced in October 1992 that it was cancelling its contract with the DMH, contending that the DMH had changed the contract terms by requiring that the planned Holyoke Hospital unit be used as a regional rather than community-based facility. The impending cancellation of the contract threatened the Charles River Hospital-West arrangement, and DMH was forced to issue a Request for Proposals ("RFP") in December 1992 to develop a new psychiatric inpatient unit. The only respondent to the RFP was Providence Hospital, also in Holyoke, which offered to continue the wrap-around license arrangement with Charles River Hospital-West. That continuation of the wrap-around license was approved by the DMH, and Providence Hospital took over as the licensee on August 1, 1993.

In the months following the June 19, 1991 recommendation by the Special Commission that NSH be closed, the DMH began taking steps to establish a privately run, state-funded mental health network based largely in the community. Toward that end, the DMH issued an initial RFP to develop an acute care network throughout the

Commonwealth. That network, however, was not in place at the time the DMH began transferring patients out of NSH.

In January 1993, the Senate Post Audit and Oversight Committee issued a report concluding that the DMH failed to develop a comprehensive plan before starting to carry out the gubernatorial commission's plan to close NSH. The House Post Audit and Oversight Committee Bureau's subsequent review concludes that that lack of planning resulted in a reliance by DMH on Charles River Hospital-West, a hospital of uncertain financial viability and questionable clinical and managerial competence, to serve a highly vulnerable group of patients.

The Bureau would group the problems encountered in transferring NSH patients to Charles River into the following categories for the purposes of this report: 1) financial problems involving Charles River and its parent company, CCSI; 2)inadequate facilities and training and qualifications of staff; and excessive administrative expenses and deficient bookkeeping.

I. FINANCIAL PROBLEMS

DMH records show that the agency began considering Charles River Hospital-West as early as May 1991 to serve the former NSH patients, and ultimately approved the arrangement, despite the fact that CCSI, the parent company of Charles River Hospital-West, had operating losses of $10.1 million in fiscal 1990, $1.03 million in 1991 and $3.07 million in 1992. CCSI

consolidated financial statements indicate a net loss of $2.78 million for the fiscal year ending on June 30, 1993.

Because of that "multi-year trend" of operating losses, the DMH has placed restrictions on state contracts with CCSI for the past two years, going as far in July of this year to bar further state contracts with the firm until full audited financial statements were reviewed by DMH. (See Exhibit #2). (The DMH noted in June that it had more than $4 million in contracts with Charles River Health Management Inc., a subsidiary of CCSI, in addition to the indirect Charles River Hospital-West contract.)

In June 1992, the DMH issued a "corrective action plan" giving the state agency the option to withdraw all contracts with CCSI if any proposed business expansions were deemed too "risky." The Bureau would note, however, that the corrective action plan was adopted just months after Charles River Hospital-West began accepting state patients under the $10.7 million contract arrangement. Thus, the DMH, in effect, closed the barn door after the horse had gotten out. The "corrective" action was meaningless in terms of protecting the interests of former NSH patients.

Coopers & Lybrand, CCSI's former auditor, stated in its February 1992 audit report, that prior to 1989, CCSI opened a number of medical hospitals in Arkansas which proved unprofitable and were ultimately sold. "Significant" losses were incurred by CCSI after it entered into a joint venture to provide psychiatric services in Spain, and the company lost money starting in 1986 on a hospital in New Hampshire and later, in 1990, incurred

"significant losses" in a heavily leveraged psychiatric facility built in Florida.

The audit stated that in response to its continuing losses totalling $8 million over a two-year period, CCSI "discontinued certain developmental projects." Instead, it "focused attention to the remaining operations and the development of a psychiatric hospital located in western Massachusetts (Charles River Hospital- West)." This statement appears to indicate that from the company's point of view, Charles River Hospital-West promised a way out of its financial problems. Yet, it is evident that CCSI had trouble finding patients to fill Charles River Hospital-West and that the state patients were necessary to bring financial viability to the hospital.

The Bureau would note that after Coopers & Lybrand issued its critical report, CCSI terminated the auditor's services and engaged another firm, Shapiro & Lieberman, which is based in Englewood Cliffs, NJ, and was only licensed in Massachusetts in June 1993. CCSI stated that it switched auditors because of a "potential conflict of interest" since Coopers & Lybrand "may be a key witness" in out-of-state litigation in which CCSI is involved. The Bureau would question this reason for dismissal of an auditing firm that simply broke the bad news about CCSI's financial condition.

Records subpoenaed by the Bureau contain numerous other references to ongoing financial problems at Charles River Hospital West. For instance, a February 3, 1993 letter from the

president of Holyoke Hospital to the chairman and president of CCSI stated that Charles River Hospital-West would not be able to cover payroll expenses that week without "immediate additional cash receipts from Holyoke Hospital." A little over a month later, an on-call psychiatrist at the facility wrote to the vice president of clinic operations at Holyoke Hospital, contending that Charles River Hospital-West was "seriously delinquent in paying doctors who perform on-call services at night, on weekends and on holidays. This is an on-going problem," the psychiatrist's letter stated.

Charles River Hospital-West also made repeated inquiries to DMH about prompt payment for reimbursable items, particularly the more than $100,000 in safety repairs made at the facility. In at least one instance, hospital representatives cited "significant cash flow problems" as the reason for seeking prompt reimbursement, a September 1, 1992 memo to DMH shows.

The official position of the administration is that Charles River Hospital-West arrangement has been a success, but the record shows several instances in which the DMH has voiced frustration with the private hospital. For instance, in June 1993, the DMH stated that CCSI has been "unresponsive" to the agency's contract "pre-qualification" process for the past two years. That unresponsiveness, the DMH stated in a June 30, 1993 memo, has "placed the continuation of these contracts in jeopardy."

II. INADEQUATE FACILITIES AND QUALIFICATIONS OF STAFF

The DMH allowed the transfers of 45 patients to the Charles River Hospital-West unit to take place before carrying out substantial safety upgrades at the hospital which had previously been recommended. As early as September 1991, the director of nursing at NSH toured Charles River Hospital-West and identified what she considered to be "critical and serious" safety problems at the facility that should be addressed "prior to the placement of (DMH) patients" there. Among the nursing director's recommendations in a September 17, 1991 memo were placing safety screens on all exterior windows, replacing glass in doors with shatterproof "Lexan-type" windows, erecting an outdoor security fence and replacing ventilation grills in bathrooms.

It appears that most of these safety recommendations were carried out only after the placement of the state patients on the unit, starting in April 1992. For instance, installation of Lexan windows costing more than $30,000 were installed on June 16, 1992, according to a work schedule examined by the Bureau; close to $2,000 worth of magnetic locks were installed on June 19; 360-degree mirrors were installed June 17; steel doors to the courtyard were installed June 25; ventilation grills were installed June 16; and a security wall was installed July 15. (See Exhibit #3). The work schedule did not indicate a date for installation of the security fencing, although a purchase order for $14,830 in vinyl chain link and board fencing for the hospital grounds is dated August 3, 1992.

In the wake of a number of patient escapes, assaults on staff and

other incidents, Charles River Hospital-West, as mentioned, was ultimately forced to spend more than $100,000 on safety-related upgrades, including erecting the fencing and replacing the windows with Lexan glass. The DMH agreed to reimburse the hospital for $87,017 of the costs, according to documents.

Many of the safety improvements were recommended by Holyoke Hospital, which expressed concerns about safety issues almost from the start of its involvement with Charles River Hospital-West. In a June 11, 1992 memo to the then president of Charles River Hospital-West, the president of Holyoke Hospital stated that "the incident of June 10 in which a patient escaped is the latest in a series of incidents that have caused us to question whether the needs of DMH clients can be adequately met under the current three-party arrangement." The memo added that "there continue to be conditions at the Unit that fall below governmental requirements and responsible industry expectations for a facility offering care to the patient population served by DMH."

Despite the agreed-upon need for safety improvements, Charles River Hospital-West continued to resist many of the recommendations. In an unsigned memo from Charles River Hospital-West, dated June 4, 1992, the writer, presumably the former president, stated that many of the recommended safety upgrades "show a lack of confidence in the ability of the staff to monitor and care for the patients...Continual questionable changes could give the staff a false sense of security and

would foster the prison-like setting which we are attempting to change," the memo added.

Based on reviews of documents and interviews, the Bureau finds that Charles River Hospital-West management also resisted efforts to provide qualified staff on the state-funded unit. In a May 15, 1992 memo to the former president of Charles River Hospital-West, the president of Holyoke Hospital stated that seven of nine personnel files of "psychiatric clinicians" reviewed lacked documentation of minimum job requirements, such as two years of college and five years of psychiatric inpatient experience. This was despite the fact that Charles River Hospital-West had certified in a written report that all nine did have that experience, the memo said. (See Exhibit #4). In a number of cases, the May 15 memo stated, the clinicians had achieved only high school education levels. In a March 24, 1992 memo, the vice president of clinic operations at Holyoke Hospital noted that a psychologist assigned to the state-funded unit at Charles River Hospital-West was unlicensed.

The May 15 memo from the president of Holyoke Hospital termed the lack of proper job requirements to among a number of "serious violations of the intent of the contract (between Charles River Hospital-West, Holyoke Hospital and the DMH)." The memo included a threat to place Holyoke Hospital's own management team on the Charles River Hospital-West unit.

In an interview, the vice president of clinic operations at Holyoke Hospital contended that it was an "ongoing battle"

with Charles River Hospital-West to ensure that the psychiatric clinicians there met minimum job requirements. The Holyoke Hospital vice president also said that from the start of negotiations on the contract, Charles River Hospital-West resisted Holyoke Hospital's efforts to place its own qualified psychiatric and medical personnel in key positions on the unit. According to the Holyoke Hospital vice president, Mental Health Commissioner Eileen Elias sided with Charles River Hospital-West on that and other issues. "Commissioner Elias basically told us we had to do business their way," the vice president said, referring to Charles River Hospital-West.

Nevertheless, records indicate that in the weeks immediately preceding the operation of the DMH-funded unit, Charles River Hospital-West had virtually no qualified psychiatric or medical staff of its own. The hospital was forced to spend tens of thousands of dollars on subcontracts with out-of-state recruitment firms for psychiatrists and physicians. Those firms included Physician International Search, Inc. of Buffalo, NY, which charged a $24,000 fee per candidate recruited and hired; Vista Staffing Solutions, Inc., of Salt Lake City, Utah ($20,000 fee); Kron Medical Corp. of Chapel Hill, NC (fee unclear); and Jackson & Coker of Atlanta, GA ($25,000 fee).

As far as the Bureau is concerned, the resistance by Charles River Hospital-West to management and clinical input from Holyoke Hospital and the evident hostility between the two parties raises questions about the validity of the wrap-around licensing

arrangement under which Charles River Hospital-West has qualified for Medicaid. In a May 29, 1991 memo discussing the wrap-around arrangement, the then DMH Western Massachusetts Area director stated that in order to receive federal approval for the wrap-around license, the parties would have to show "a clear link between the general hospital and the freestanding psychiatric hospital." According to information provided the Bureau, Providence Hospital, the current holder of the wrap-around license, has had little previous experience in treatment of the seriously mentally ill, raising further questions about the validity of the wrap-around arrangement.

Additional evidence of the lack of clinical and managerial expertise at Charles River Hospital-West when state patients were first admitted there can be found in numerous memoranda issued by DMH expressing concern and skepticism over hospital policies and procedures. A May 22, 1992 internal DMH memo cited several concerns, including patients escaping from the facility, patients being moved from unit to unit "resulting in disruption and destabilization," "confusion regarding forensic admissions," and a "lack of understanding of community resources." The memo also stated that the direct care staff lacked training and "do not appear to have the support or backup of the clinical personnel or management personnel."

An April 17, 1992 DMH Western Massachusetts Area office memo found policies and procedures of both Charles River Hospital-West and Holyoke Hospital to be inconsistent with state regulations

in the areas of psychiatry and privacy of mail. The unit's emergency psychiatric treatment policy was "vague, confusing and incorrect,'' according to the memo. A June 4, 1992 memo from the DMH western office to both Charles River Hospital-West and Holyoke Hospital officials faulted the Charles River Hospital-West unit for failing to put in place a human rights committee and failing to hire a full-time human rights officer. A June 8, 1992 internal DMH memo expressed skepticism about the fact that no written patient complaints had been forwarded to the DMH by Charles River Hospital-West even though the DMH had heard allegations of sexual abuse of a patient on the unit, the denial of leave passes to eligible patients and other problems. The sexual abuse allegation, which was ultimately dismissed by DMH, was never reported, as required, to the Disabled Persons Protection Commission, the memo stated.

The Bureau has received a number of complaints that human rights and quality-of-care issues were routinely ignored by the management at Charles River Hospital-West. In an interview, the hospital's first full-time human rights officer, who was hired only in November 1992, said he often felt frustrated in getting top hospital administrators to address human rights issues there. The officer was terminated after having been on the job less than three months.

While the western Massachusetts DMH officials were expressing those concerns, there appears to be little evidence that top officials at DMH administrative headquarters in Boston

were willing to acknowledge any problems with Charles River Hospital-West. On April 30, 1992, the deputy DMH commissioner for clinical services approved a license for the facility with a letter to the then president of Charles River Hospital-West stating, "congratulations to you and your staff for the concerted effort to maintain a facility providing high quality care."

III. HIGH ADMINISTRATIVE EXPENSES

Initial budget documents for Charles River Hospital-West projected the per-patient cost per day on the state-funded unit at $639.57. That can be compared to a per-day cost at NSH of between $340 and $350, according to a May 29, 1991 memo written by the then director of the DMH Western Massachusetts Area office. The agreed-upon per-diem rate for the planned 24-bed unit at Holyoke Hospital was $533, according to the memo.

Top administration officials argue that the higher cost at Charles River Hospital-West still represents a savings to the state because of the eligibility of the private hospital under the wrap-around license arrangement for Medicaid. The Bureau would dispute that "savings" claim, however.

First, the Bureau would point out that even though the higher costs are partially reimbursed to the state in the form of Medicaid dollars, those higher costs are still paid by taxpayers. In effect, all the Charles River Hospital-West wrap-around license arrangement did was to shift costs of caring for the former NSH patients to the federal government, with a net

increase in costs to taxpayers. As mentioned, the Bureau questions both the long-term availability of federal Medicaid reimbursement and the validity of the wrap-around licensing arrangement that qualified Charles River Hospital-West for Medicaid.

Secondly, subpoenaed documents show that Holyoke Hospital continually voiced concerns that budgeted costs at Charles River Hospital-West were being exceeded. Under the contract arrangement, Holyoke Hospital reimbursed Charles River Hospital-West for its costs and was in turn reimbursed by the DMH.

Revised budget documents in April 1993 show the estimated per diem rate for Charles River Hospital-West had risen to $683.73, an amount more than double the low-end estimate of the NSH cost. In an interview, the Holyoke Hospital vice president of clinical operations said the revised per diem reflected an $825,000 increase in indirect costs claimed by Charles River in the quarter ending December 31, 1992. Budget documents show administrative costs alone nearly tripled in that quarter, from $128,069 to $310,621. According to the vice president, Holyoke Hospital objected to the increases in indirect costs, but DMH administrators in Boston once again sided with Charles River Hospital-West in the dispute.

In a February 10, 1993 internal memo, the DMH deputy area director of the Western Massachusetts office sought a review of the second quarter indirect costs charged by Charles River

Hospital-West, specifically $159,327 in administrative expenses over budget. It was not clear what the outcome of this review was or if one was ever done.

In an August 2, 1993 memo to DMH, the vice president of clinical operations at Holyoke Hospital wrote that through June 30, 1993, Holyoke Hospital paid Charles River Hospital-West $375,316 "in excess of accepted documented expenses for this unit."

Peat Marwick Audit

At the request of Holyoke Hospital, KPMG Peat Marwick conducted an audit of the Charles River Hospital-West state-funded unit for the six-month period ending March 31, 1993 and found a number of serious bookkeeping deficiencies. Among the findings in the Peat Marwick report, dated July 1, 1993, were that:

1. For payroll periods reviewed, the auditor was unable to reconcile the payroll register to the general ledger.

2. No formal documentation existed of an agreement between Charles River Hospital-West and Holyoke Hospital on the payment of management fees charged to the contract. In one quarter reviewed, the management fee was $147,000.

3. Maintenance and housekeeping salaries were double counted; 17 of 26 non-salary invoices examined had remained unpaid and time sheets didn't match up with actual payments to certain employees.

4. Charles River Hospital-West had not filed payroll tax form 941s for several quarters and none of the penalty or interest charges from the failure to file were reflected in general ledger accounts.

(Shortly after the issuance of the Peat Marwick report, Charles River Hospital-West reduced a request to the DMH for a subsidy payment to defray unanticipated administrative costs from

$800,000 to $100,000. The hospital indicated that the initial figure was a mistake, according to newspaper reports).

The replacement of Holyoke Hospital with Providence Hospital as the licensee of the Charles River Hospital-West state-funded unit, has yet to be proved to be a money-saver. In a February 10, 1993 memo to a vice president of Providence Hospital, the deputy director of the DMH Western Massachusetts office expressed concerns about high administrative, contracted medical and doctor-on-call costs projected by Providence Hospital at Charles River Hospital-West. According to the memo, the Providence Hospital proposal called for administrative fringe benefits of 26.5 percent, when the "industry norm" was about 18 percent. The memo also noted a "redundant" line item of $650,000 for administrative overhead in the Providence Hospital proposal and social service costs which were "at least 50 percent over acceptable levels."

The Bureau would note that in addition to paying a higher per-diem rate at Charles River Hospital-West than at NSH, the DMH appears to have lost at least some of its previous capacity to treat forensic patients. The City of Chicopee, for instance, placed limits on the jurisdiction of Charles River Hospital-West to accept forensic patients. A special zoning permit obtained by the hospital in 1989 states that the hospital will not admit patients "with a recent history of seriously assaultive behavior, (who have) been accused of or committed a felony or being accused of or judged not guilty by reason of insanity."

Preliminary Findings and Recommendations

The Bureau believes that numerous questions are raised by the administration's insistence on transferring former NSH patients to Charles River Hospital-West, despite the hospital's questionable financial condition, high per-diem costs and lack of managerial and clinical expertise. Further questions are raised by the consideration of Charles River Hospital-West as a likely facility for housing NSH patients before the Special Commission had even recommended the closure of the state hospital.

From a broader perspective, the whole arrangement with Charles River Hospital-West appears to have made little sense. As initially planned, the Charles River Hospital-West arrangement required that patients suffering from mental illness would, at the least, have to be moved twice in an 18-month period -- once from NSH and once from Charles River Hospital-West to the permanent unit at Holyoke Hospital, when completed. It would have made far more sense, from the Bureau's perspective, to keep the patients at NSH until the Holyoke Hospital unit was complete. The Bureau would note that it had previously raised concerns with the DMH about transferring patients out of NSH before arrangements with Holyoke Hospital and Charles River Hospital-West had at least been finalized.

At best, the Charles River Hospital-West arrangement shows that administration officials were so intent on carrying out their privatization plans as quickly as possible that they gave little thought to the welfare of the patients involved. It also appears

that the administration was intent on bailing out a financially ailing private enterprise and placed more emphasis on the financial health of CCSI than on the well-being of the state patients. The result is that the DMH acquired a state-funded facility with a myriad of managerial and clinical problems at a higher aggregate cost to taxpayers and with limited jurisdiction in accepting forensic patients. This preliminary examination reveals a recurrence of a theme that the Bureau found in other DMH ventures, such as the transfer of patients from Danvers State Hospital to Tewksbury State Hospital. That case also showed a lack of planning and concern for patients, who were transferred before a sprinkler system was installed at Tewksbury State Hospital, causing additional costs to taxpayers and safety problems for patients.

The Bureau notes that the recipients of services under these privatization initiatives are some of the most vulnerable and least represented in our society. Rather than simply treat these clients as mere numbers on a balance sheet, the Executive Office of Health and Human Services would be better served by insisting upon high-quality care that is provided by competent clinicians and professionals in the most cost-effective manner. Anything less will only result in illusory savings and greater costs down the road to the taxpayers of the Commonwealth.

The Bureau would accordingly recommend that:

1. Public hearings be held to question top administration officials as well as current and former administrators at Charles River Hospital-West about the decision-making process involved in selecting the hospital to care for the

former NSH patients.

2. The DMH refrain from any additional contracting with CCSI and further that the DMH reevaluate all existing contracts with CCSI until questions about financial stability and concerns about staff competence are addressed.

3. The House Post Audit and Oversight Committee (the "Committee") in conjunction with the Bureau undertake a comprehensive review of the DMH's plans and efforts to establish a community-based acute care network of care for the mentally ill.

4. The Committee and the Bureau examine reports of extensive renovations at NSH prior to its closure. Those expenses appear questionable in light of the subsequent decision to close the hospital.

5. The Bureau examine the DMH's system for forensic admissions in the wake of the closures of NSH, Danvers and Metropolitan state hospitals.

Facility Recommendations/DMH

Facility Name: **Northampton State Hospital**

Recommendation:

Close; transfer services/patients to appropriate care situations

Census:

Current Census:	120
Physical Capacity:	145

Type of Service	# Beds	Appropriate Care Location	Implementation Timeline	Placement Costs	State Capital $*
Long Term	30	Private Sector	FY'92	$1.90M cost	$8.30M savings
Community Rehabilation	30	Community Residences	FY'92	$1.35M cost	$0.05M cost
Acute Care	60	General Hospital	FY'92	$6.26M cost	
Total	**120**			**$9.51M cost**	
Projected Total	**0**				**$8.25M savings**

FY'90 Cost	$19.84M
Placement Cost	-$9.51M
Savings**	$10.33M savings

Key Implementation Steps/Notes:

* The state capital dollars here represent the projected capital requirements which are necessary for the facilities to meet federal accreditation standards and for the long-term maintenance of these facilities.

** This chart shows the annual operating savings to the state derived by taking the annual net cost of providing care for patients in their current setting and subtracting the annual net state cost of providing them services elsewhere, i.e. residential placements, nursing homes, general hospitals, or other state owned facilities.

Exhibit #2

Community Care Systems, Inc. and Subsidiaries

DEPARTMENT OF MENTAL HEALTH
CAP Attachment - Corrective Action Plan FY'93

Deficiency Identified	Corrective Measures to be Taken	Time Frame
1. Received CCSI audited consolidated corporate statements for FY June 1991 on May 30, 1992.	1. No new awards may be made to CCSI on its affiliates by any purchasing agency until full audited statements are received and reviewed by DMH. At which time DMH will render a FY'94 prequalification status for the remainder of FY'94.	10/1/93 receipt of statements
	2. Charles River Health Management and Charles River Hospital West may not transfer any funds including dividends to CCSI without prior approval of DMH Central Office, CAAS Division.	Ongoing
3. Interrelated Financial Concerns	3. Interrelated Financial Concerns a-d	Monthly
a. "Going Concern" independent auditor's opinion.	* Monthly management letter updating Community Care Systems' operations and finances.	
b. Stockholder's deficit: FY'92 ($16,965,000) FY'91 ($13,893,000)	a. Before implementation of any business expansion DMH will be briefed and have option to withdraw all current and/or awarded contracts if proposed business venture is deemed too risky or financially unviable.	
c. Current ratio 0.51	* Monthly consolidated financial statements for Community Care Systems, Inc. and Subsidiaries.	Monthly
d. Multi-year trend in operating losses: FY'92 ($3,072,000) FY'91 ($1,026,000) FY'90 ($10,115,000)	* Cash flow reports for any CCSI subsidiary with DMH contracts Subsidiary cash out transfers will not negatively impact patient care, program operations, or employee staffing.	Monthly

Signature CCSI Representative/Date

Printed Name/Title

Exhibit #3

TASK	VENDOR	START DATE	COMPLETION DATE	COMMENTS
Boxing Sinks and additional secure wall. Approx. 4' higher with roof	Arclair Builders	June 15, 1992	July 15, 1992	#29
2) Lexan windows: 100-WEST 200-WEST 100-EAST	Architectural Bldg.	1 set - 6/14/92 On Order Completed	1 set - 6/16 Completed	
3) Metal Safety Stoppers for windows: 100-WEST 100-EAST 200-WEST	" "	1 set on order June 14, del. June 18, del. June 18, del.	June 16, 1st set June 20, 1992 June 20, 1992	
4) Installation perforated steel in vents: 100-WEST 200-WEST	Kleeberg Sheet Metal	June 12, 1992	June 16, 1992	
5) Install 4 sinks 100-EAST 100-WEST 200-WEST A. 3 Utility Rooms B. 1 Exam Room	Grodsky	June 11, 1992	June 19, 1992	
6) 18" 360° all steel mirrors	McMaster Carr	June 16, 1992	June 17, 1992	
7) Installation of magnetic locks in hallway between buildings A & B	Signet	June 16, 1992	June 19, 1992	
8) Magnetic lock cylinders in gym and between buildings A & B rekey cylinders 100-WEST	Holyoke Lock	June 13, 1992	June 17, 1992	

9) First floor keyed to AA6	Otis Elevator	June 17, 1992	June 17, 1992	
10) 2 steel doors to courtyard	Westside Door	June 25, 1992	June 25, 1992	
11) Landscaping				
12) Fencing along Turnpike and Rte. 33 Green chain link along Turnpike. Stockade & split rail along R33 to sign from existing chain link fence				
13) Time Out Rooms (Seclusion)				
A. Relocation	CRH-W	Completed	Completed	
B. Lexan windows	See Item #3			
C. Door windows	CRH-W	Completed	Completed	
D. Door swing change	CRH-W			Hardware Ordered
14) Medicine Room changes	CRH-W	Completed	Completed	
15) Interior windows coated with 3M safety film	Millard Assoc.			
100-WEST		June 16, 1992 Completed	June 19, 1992 Completed	
200-WEST				
16) Space designation omitted from H.H. lease 500 square feet of space CRH-W donated to the DARE Program				
17) Staffing:				
100-EAST	CRH-W	Completed	Completed	All staff, staffing patterns & schedules are in compliance.
200-WEST	CRH-W	Completed	Completed	
100-WEST	CRH-W	Underway		

Exhibit #4

HOLYOKE HOSPITAL, INC.

..ANK J. PORTEN
President

575 BEECH STREET
HOLYOKE, MA. 01040-2296
PHONE 534-2500

#155

May 15, 1992

Mr. Kenneth Lemanski, President
Charles River Hospital - West
350 Memorial Drive
Chicopee, MA 01020

Dear Mr. Lemanski:

John O'Keefe has informed me of the following three incidents that have occured this past week:

1. On Monday, May 18th, he discovered approximately thirteen Charles River Hospital West patients on our licensed unit (100 East) without our knowledge and approval;
2. On Wednesday, May 13th, he discovered through a review of nine personnel files of psychiatric clinicians that the files of seven of those reviewed did not have documentation of minimum job requirements (e.g., 2 years college and 5 years psychiatric inpatient experience and evidence of education activity during the past two years). This is despite the fact that Charles River Hospital West certified in a written report to John that all nine did in fact have at least 2 years college and 5 years of psychiatric inpatient experience. In some cases, the record clearly noted that the highest grade achieved was grade 12, while Charles River Hospital West noted these individuals as having an "AA" or "college credits";
3. On Thursday, May 14th, he discovered that six of Charles River Hospital West patients were physically transferred to our unit (#200 West) without our knowledge and approval, and without DMH's approval as provided for in the contract. Furthermore, several of these six patients were adolescents. John informs me that your initial response was "What harm is being done?"

Each of these incidents in themselves are viewed by Holyoke Hospital as serious violations of the intent and content of the contract between Holyoke Hospital and Charles River Hospital West. Furthermore, these incidents jeopardize our hospital license and HCFA approval for this unit. The negative ramifications that could result from such activities are serious with regard to Holyoke Hospital, the Commonwealth of Massachusetts (DMH), and especially the patients.

Taken together in the short time span of four days, these incidents raise substantive doubts in our minds regarding the ability and integrity of Charles River Hospital West to effectively manage our 45 licensed beds at your facility. Further incidents of such violations will lead to whatever actions will be necessary on our part to assure the proper and integral management of our patients - including, but not restricted to, the immediate placement of our own management team to replace Charles River Hospital West managers. If such action is necessary, we will adjust our fees to Charles River

5-19-92
Faxed to Fred T.
Bob Steffen

Hospital West accordingly to cover all necessary actions we may determine to take to comply with the terms of our D.P.H. license, JCAHO accreditation, HCFA approval, and D.M.H. contract.

If there is any question on your part about any aspect of our contract that is not clear, please call me immediately. In light of these incidents, I would like to identify some areas of concern in order to avoid any misunderstanding:

1. Charles River Hospital West has no authority to place or treat their patients on Holyoke Hospital's Units {100 East; 200 West; and 300 East} at any time. Only Holyoke Hospital patients, who have been admitted according to approved processes, can be treated on our Units.
2. Only costs for staff who have been assigned to work on our Unit, and who have been identified as such by Charles River Hospital West in writing to John, and approved by him as meeting the agreed upon job requirements, will be reimbursed by us. In light of the incidents of this week, **no direct care staff** person who is assigned to our unit can work for any other Charles River Hospital West Unit without our explicit, written approval and agreement. I am making this requirement to avoid a potential problem with staff appearing on our Unit's staffing pattern as a full time employee, being reimbursed by us accordingly, but in fact working on a Charles River Hospital West Unit for part or all of his/her time.
3. Only clearly documentable expenses that relate to our Unit and that comply with our contractual agreement can be charged to Holyoke Hospital.

This listing is not meant to preclude compliance with all of the terms of the contract. Its intent is to avoid any misunderstanding about the seriousness that I am viewing what appears to be purposefully deceitful or fraudulant actions on the part of Charles River Hospital West. Additional incidents of this nature will not be tolerated.

Sincerely yours,

Hank J. Porten, President

cc: Eileen Elias, Commissioner D.M.H.
John Ford, Asst. Commissioner D.M.H.
Bob Murphy, Special Ass't to the Commissioner D.M.H.
James Duffy, Area Director D.M.H.
Cathy Coughlin, Program Director D.M.H.
Anne Doherty, Esq. D.M.H.
Fred Thatcher, President Community Care Systems, Inc.
Bob Griffin, Esq.
Anita Sarro, Esq.
John O'Keefe, V.P. Clinic Operations
Tony Correia, V.P. Finance